

Message Text

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PAGE 01 STATE 215648

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NODIS

E.O. 11652: GDS

TAGS: ENRG, UR

SUBJECT: SOVIET OFFER TO SELL OIL

PLEASE PASS FOLLOWING MESSAGE URGENTLY TO UNDER SECRETARY
ROBINSON.

1. JACK FITZPATRICK, VICE PRESIDENT OF GULF OIL,
PITTSBURGH, CALLED TO REPORT THAT THE LONDON OFFICE OF
SOYUZNAFTAEXPORT, SOVIET STATE TRADING COMPANY FOR
PETROLEUM, HAD CONTACTED GULF OIL LAST WEEK REGARDING
THE SALE OF A SUBSTANTIAL QUANTITY OF RUSSIAN CRUDE.

2. SOYUZNAFTAEXPORT SAID THEY WERE UNDER INSTRUCTIONS TO
CONTACT GULF, WHICH IS ALREADY INVOLVED IN OTHER BUSINESS
ARRANGEMENTS WITH THE SOVIETS, TO SEE WHETHER GULF WERE
INTERESTED IN A SUBSTANTIAL LONG TERM CONTRACT. THE
QUANTITY THEY WERE OFFERING TO SELL WAS IN THE ORDER OF
SECRET

SECRET

PAGE 02 STATE 215648

2 MILLION TONS PER ANNUM, EQUIVALENT TO 40,000 BARRELS PER

DAY. THE PRICE, ACCORDING TO FITZPATRICK, WAS QUOTE VERY COMPETITIVE UNQUOTE, WELL BELOW ANYTHING THAT GULF COULD GET IN THE ARABIAN GULF, EVEN AS A MEMBER OF THE IRANIAN CONSORTIUM WHICH GAVE IT A PRICE ADVANTAGE.

3. WHEN PRESSED ON THE PRICE, FITZPATRICK INDICATED THAT

THEIR LAST PURCHASE FROM THE SOVIETS WAS MORE THAN 20 CENTS PER BARREL BELOW THEIR BEST PRICE FOR LIGHT IRANIAN CRUDE. THE NEW SOVIET OFFER WAS QUOTE EVEN BETTER UNQUOTE AND GULF WOULD QUOTE GET ALL THAT THEY COULD AT THAT PRICE UNQUOTE. HE SAID HE THOUGHT THAT IT MIGHT BE POSSIBLE TO BUY SUBSTANTIALLY MORE THAN 2 MILLION TONS PER ANNUM IN THE CONTEXT OF A LONG-TERM CONTRACT.

4. WHEN ASKED WHETHER THERE WERE A PRICE ESCALATION CLAUSE, WHICH WOULD KEEP THE SOVIET PRICE IN LINE BUT JUST BELOW OPEC PRICES, FITZPATRICK SAID HIS IMPRESSION WAS THAT THE PRICE WAS FIRM AND THE COMPETITIVE ADVANTAGE WOULD INCREASE SUBSTANTIALLY IN THE WAKE OF ANY OPEC PRICE INCREASE. THIS POINT HAD NOT BEEN EXPLORED IN DETAIL.

5. SUYUZNAFTAEXPORT WND INDICATED THAT QUOTE FOR POLITICAL REASONS UNQUOTE IT WAS IMPORTANT FOR THEM TO HAVE OIL COMING TO THE STATES IN SOVIET BOTTOMS. FITZPATRICK SAID HE FELT CERTAIN THAT AN ARRANGEMENT COULD BE MADE IN THIS CONNECTION WHICH WOULD ALSO ALLOW SHIPMENTS IN U.S. BOTTOMS

6. FITZPATRICK FURTHER STATED THAT GULF OIL HAS ORGANIZED A SUBSIDIARY TRADING CORPORATION. HE HAD NOTED IN THE MEDIA THAT THERE HAS BEEN SOME DISCUSSION OF AN OIL-GRAIN SWAP AND SAID THAT GULF THEREFORE HAD A MECHANISM THROUGH WHICH SUCH A SWAP COULD BE ARRANGED. HE SAID IT WOULD BE POSSIBLE AND DESIRABLE FOR OTHER PETROLEUM COMPANIES TO PARTICIPATE IN THE ARRANGEMENT.

7. FITZPATRICK SAID THAT, WHILE GULF WAS ANXIOUS TO ENTER INTO AN AGREEMENT WITH THE SOVIETS, THEY DID NOT AND WOULD NOT DO SO WITHOUT FIRST COORDINATING WITH YOU.

SECRET

SECRET

PAGE 03 STATE 215648

THEY REALIZE THAT SOYUZNAFTAEXPORTS PROPOSITION WILL BE AFFECTED BY THE NEGOTIATIONS ABOUT TO TAKE PLACE AND THEY ARE ANXIOUS TO PLAY ANY USEFUL ROLE THAT MIGHT GROW OUT OF THEM. KISSINGER

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